A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Uber, a path for profitability or a market misperception?

Maria Laura Nunes Carvalho 33931
Marta Cristina Silva Gomes Roque 34083

A Project carried out on the Master in Finance Program, under the supervision of:

Francisco Martins

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Abstract

The present equity research report serves the purpose of executing a valuation of Uber Technologies, Inc, an American multinational company that provides peer-to-peer ridesharing, food delivery, freight services, and bicycle and scooter sharing systems in more than 700 cities in 63 countries.

The valuation performed has in mind the optimistic factors about the company's future (scale, dominance, profitability, and a favorable environment to revenue growth) but also the risks it may have to face (ATG as a risky segment, regulatory restrictions, and ease of raising debt).

The price target achieved through a DCF valuation is $38.47, 29% above the market price as of 31st December 2019, leading to a buy recommendation.

Keywords

Mobility, Technology, Scale, Profitability

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MASTER IN FINANCE

COMPANY REPORT

UBER TECHNOLOGIES, INC.

MARIA LAURA CARVALHO

MARTA ROQUE

3 JANUARY 2020

33931@novasbe.pt

34083@novasbe.pt

Uber Technologies, Inc.

A path for profitability or a market misperception

- Uber's stock is undervalued, given that the price target is 29.4% higher than the market price on 31st of May, 2019. As so, the recommendation is a (moderate) buy;
- The industries where the company operates are expected to have high growth rates, but Uber has to face competition to achieve dominance in each market where it operates;
- Scale is Uber's biggest advantage since it allows the company to enjoy synergies in costs and to have high growth rates when a new segment launches, also driven by the 100 million users already engaged;
- The company becomes profitable in 2028, pusuing a path of cost optimization until that year, and despite the high invesments on ATG.
- Uber may face regulatory restrictions that incapacitate its ability to operate in specific geographies, despite the company being negotiating with government in the most sensitive regions;
- Return on ATG investment might be lower than expected;
- Uber may be subject to challenges associated with raising debt, resulting in more expensive debt or even incapacity of raising it.

Recommendation	BUY
Price Target FY20	38.47
Price (as of 31/12/2019)	29.74
Source: Thomson One	
35-week range ($)	$47.08 - $25.58
Market cap ($m)	51,464
Outstanding shares (m)	1683

(values in $ millions)	FY18A	FY19E	FY30F
Revenues	11,270	15,246	110,344
EBITDA	(2,649)	11,410	(10,243)
EBIT	(3,075)	(6,531)	9,562
Net Profit	(4,033)	997	10,713

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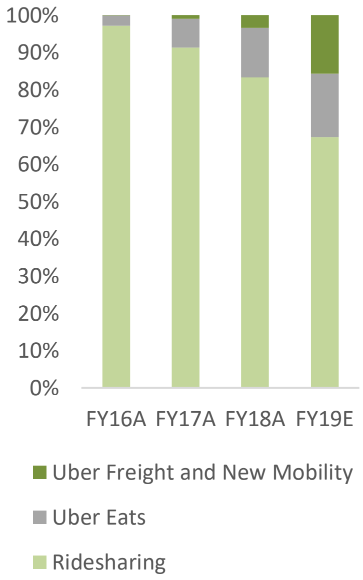
Executive Summary

Uber started as a ride-sharing app in 2010, and it is now drawing its path to becoming a super-app. Nowadays, it offer services related with ride-sharing services, food delivery, freight services, bike and scooter ride-sharing, and an embryonic segment of payment services. It operates in 63 countries and has generated $ 11,270 million in revenue for 2018.

Figure 2 - Revenue by geography



The company is a leader in most of the markets where it operates. In the markets where Uber finds obstacles to penetrate, it acquires leading companies to absorb their share of the market.

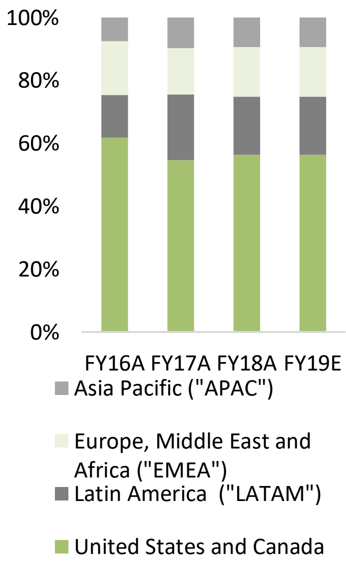
The company's revenue has been growing over the years, but Uber was not able to achieve profitability yet. The big opportunities for the company to grow in the future years are in the most recent segments and the increase of its penetration rate.

Uber's market has low switching costs, which leads to challenges concerning consumer's loyalty, and also low barriers to enter.

In terms of scale, Uber has an advantage when compared to its peers. There is not any company offering the same services in such diversified geographies as Uber. However, the competition is more local than global. Following the forecast of value drivers, a DCF and Multiple Valuation is performed, resulting in different prices. As so, a target price of $38.47 is achieved based on DCF, resulting in a buy recommendation.

Company Overview

Figure 1 - Revenue by geography



By March 2009, Uber was not more than a mobile app that allowed users to get a ride by a simple touch. Nowadays, it is an American multinational company that provides services related to peer-to-peer ridesharing, food delivery, freight services, and bicycle and scooter sharing systems in more than 700 cities in 63 countries. Uber is expected to launch new segments over the future years, in its path to becoming a super-app. The company went public in May 2019, and on the first day trading, Uber's stock fell almost 8%, and as of today, it keeps trading 32% below its issue price of $45.

In 2016, Ridesharing accounted for 92% of total revenue. In 2018, the same segment accounted for 84% of total revenue, with Uber Eats representing 13% and Uber Freight and New Mobility 3%. Uber is all over the world, from North America to Australia, but its position in each geography has been changing over the years. In 2018, 52% of Total Gross Bookings were generated outside the US, although it represents 74% of the trips. Moreover, in 2018, 24% of Uber's Ridesharing Gross Bookings were derived from five metropolitan areas: Los Angeles, New York City, San Francisco Bay, London and São Paulo.

Ridesharing

In the ridesharing sector, Uber is the intermediary between drivers and the end-users of the app, which are both seen as clients of the company. Uber charges a dynamic price per mile (based on the demand of rides) to each rider and then pays drivers a fixed fee based on the miles travelled.
In the context of this segment, the company has several offerings: Uber for Business (U4B), Uber Auto, and the standard ridesharing offers.
Uber for business is a segment that offers 4 different services:

- Uber Health, that allows healthcare services providers to schedule rides for its patients so they don't miss any medical appointment;
- Uber Business Travel, that gives companies a tool to manage their employees or clients rides;
- Uber Vouchers, which sells trips vouchers to companies, so they can give it to employees and/or clients to pay for the travel costs;
- Uber Courtesy, which allows to book rides whenever we have some guest visiting the company and in need of a ride.

Uber Auto is another service of Uber, which is a very typical offer that consists of simple ridesharing, but instead of using standard cars, the vehicles are auto rickshaws. This type of rides are available in countries where these vehicles are particularly famous, mostly in Asia.
Back in the days, Uber used to extract revenues from leasing contracts related to the vehicles used for ridesharing. Today, this offering can be considered as irrelevant for the company's business, since it only accounts for 1% of the total revenue.
Also, in the ridesharing segment, Uber has some self-driving vehicles on tests in several cities in the United States (US). However, it has been tough for the company to improve these new technologies. In 2018, an Uber self-driving car killed a woman in the US, which led to an investigation that ended with Uber being unblemished. Nevertheless, this led to a bad reputation. There is an evident uncertainty about the future performance and success of this service because there are many issues involved, from regulation to technologies, and there are also competitors who may be one step forward of Uber.

New Mobility

New mobility is a segment of the company that includes dockless e-bikes and scooters, offering its services in approximately 30 cities in Europe, the US, Canada, and Mexico.

In what concerns to this segment, Uber purchases the bikes and scooters, and it is responsible for its maintenance. Consumers pay for each minute using the bike or scooter.

Uber Eats

Uber Eats is the food delivery segment of Uber, where it plays the role of intermediary between restaurants and end-consumers. The company gets a fixed percentage of the restaurant food basket value (around 20%) and also charges a delivery fee to the end-consumer, from which it has to pay the driver fees. In most countries, this delivery fee is a fixed amount for end-users ($ 4.99 in the US, for example), but Uber is already testing dynamic fees. Although Uber charges a fixed delivery fee to end-users, the company pays a dynamic fee to drivers. Uber Eats has recently started a new type of business in which Uber is just the platform where the end-users order the food, and the drivers are employees of the restaurant. In this way, Uber just receives a fixed percentage of the order value. Also, this may be a way for Uber to avoid regulatory issues concerning its drivers.

Uber Freight

In 2017, Uber launched Uber Freight, a platform that connects trucking companies and respective drivers directly with shippers, without a formal long-term agreement. Nowadays, they operate in the US, Canada, Poland, Germany, and the Netherlands. In this segment, Uber found a very fragmented and inefficient market. Companies would take hours or even days to find a carrier. Uber Freight has applied the ridesharing rationale to this market: connects shippers to the adequate transporters by a simple click. As in the ridesharing segment, the company connects the two parts between them, establishes the price for shippers, and the reward for carriers and gets a percentage of each shipment.

Acquisitions and Partnerships

One of Uber's main future strategies to achieve growth is increasing ridesharing penetration in existing markets.

There are some markets where Uber found some obstacles to enter. To overtake this, the company celebrates partnerships with strategic companies and acquires other companies, to absorb their businesses or acquire knowledge.

One of the examples is Careem, which is 100% owned by Uber. This company offers ridesharing services, food delivery, and payment services in the Middle East. Uber's acquisition of Careem was the way Uber finds to penetrate this market since people are very connected to companies and brands of their own country. The company can also take lessons on how to diversify its offers from this company, applying it to other geographies. Uber has also merged with Yandex in Russia, Armenia, Azerbaijan, Belarus, Georgia, and Kazakhstan for the same reason.

In the new mobility sector, Uber is trying to acquire knowledge from other specialized companies. The company established a partnership with Jump in 2018, which end up with the acquisition of the company itself for about $250 million. Uber is also partnering with Lime, another provider of scooters around the world, integrating their scooters into Uber's main app and adding its brand to the vehicles. Following the strategy performed on Jump's acquisition, this partnership may end up with an acquisition of Lime, which would allow Uber to absorb 28 million miles traveled per year in more than 100 cities all over the world, a considerable portion of the scooter's market[1].

Uber also acquired a majority stake in Cornershop, an online grocery market start-up. This Company is a very active demander on the South-American market in countries like Chile, Mexico, or Peru, and Uber's purpose on this acquisition was the increase of penetration rate in these markets. The acquisiton is expected to be completed in the beginning of 2020, so the specific terms of the transaction have not been disclosed. However, Uber announced that the management team of Cornershop will be the same, responding to a board of Uber members. Having this, in its expansion to the US, Cornershop may be incorporated in Uber application or continue to operate with their own brand.

[1] Financial Times. 2019. "Uber Enters Scooter Wars with Lime Investment | Financial Times." Accessed January 1, 2020. https://www.ft.com/content/f247dec6-838f-11e8-96dd-fa565ec55929.

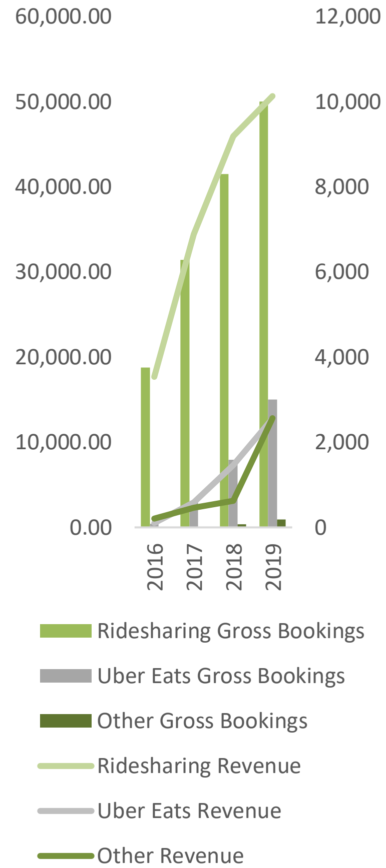
Financial Performance

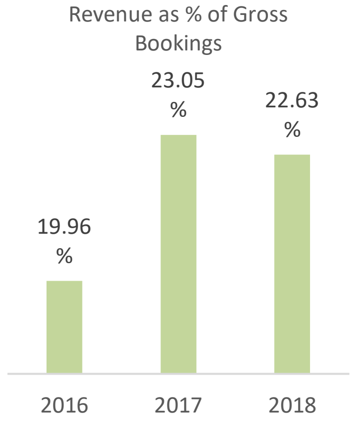
Figure 3 - Ridesharing and revenue growth by segment

	FY17A	FY18A	FY19A
Ridesharing	95%	33%	10%
Uber Eats	470%	149%	75%
New Mobility and Uber Freight	6600%	457%	535%
Total	106%	42%	35%

Gross Bookings Growth

	FY17A	FY18A	FY19A
Ridesharing	67%	32%	21%
Uber Eats	543%	168%	89%
New Mobility and Uber Freight	632%	448%	146%
Total	79%	45%	32%





In 2018, Uber generated $ 11,270 million of revenue. Uber's revenue has been increasing over the years, however, at a slower pace year over year. Total revenue grew by 106% in 2017, 42% in 2018, and 35% in 2019. This slower pace is easy to understand because, at the beginning of each segment, Uber has a considerable margin of geographical expansion, which led to growth rates of 500%-600% in the first years of each offer.

In 2017, Uber Eats revenue grew by almost 500%, followed by a 149% increase in 2018 and 75% in 2019. For the new mobility and Uber Freight together, we have around 500% revenue growth for 2018 and 2019. Nevertheless, Uber's potential to grow on ridesharing and Uber Eats is now in the increase of its penetration rate. Also, the younger generations are getting more familiarised with this type of service, and it is expected that the willing to own a private car decreases, increasing the demand for ridesharing or new mobility offers at the same time. People using e-commerce offers are increasing and this will become part of everyone's life in the future.

Besides the revenue growth, revenue as a percentage of gross bookings also increased from 2016 to 2017, reaching 23%. This growth means the company is becoming more efficient, improving its cost structure in each segment.

One of the main characteristics of the markets where Uber operates is that they have an elastic demand and low switching costs, which leads to low pricing power. Most of the people have more than one application installed on its smartphone, comparing prices every time it wants to use it. Because of that, Uber is not able to increase loyalty among its users, despite the company being already dealing with this problem by creating subscription plans, that allow people to pay a certain price per month, having zero delivery fee on Uber Eats and discounts in the other offers, for example.

We also have to analyse attractiveness and loyalty in terms of drivers. Uber has to retain and attract drivers to their platform, and there are several attractive points to have in mind:

- higher commissions;
- drivers support;
- take rate and network.

Figure 4 - Uber and Lyft rides per driver and riders per driver

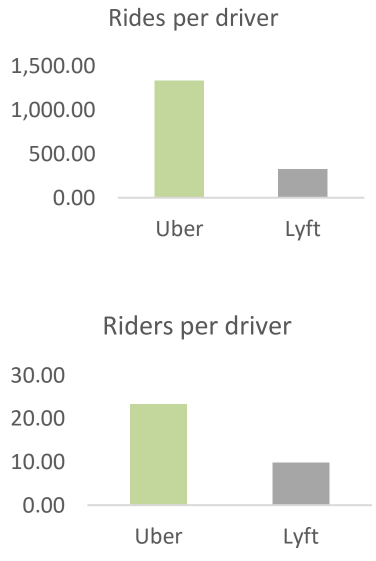


Figure 5 - Uber's operating margin

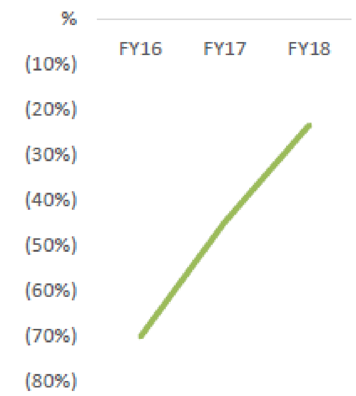


Table 2 - Ridesharing net profit margin

in $m for 2018	**Uber**	**Lyft**
Net profit	812	(911)
Revenues	11,270	2,157
Net profit margin	**7%**	**(42%)**

Table 1 - Food delivery net profit margin

in $m for 2017	**Uber**	**GrubHub**	**Delivery Hero**
Net profit	(368)	99	(348)
Revenues	3,845	683	544
Net profit margin	**(10%)**	**14%**	**(64%)**
in $m for 2017	**JustEat**	**Takeaway.com**	**Amazon**
Net profit	(104)	(31)	274
Revenues	546	112	74,452
Net profit margin	**(19%)**	**(28%)**	**0%**

In what concerns to commissions, Uber takes between 25% and 35% for each fare. Lyft, for example, takes between 30% and 38%[2]. Talking about drivers' support, the company is investing in having more physical support offices, making support faster and more personalized. Take rate and network is one of the main advantages of Uber, which leads to more trips and, consequently, higher earnings for drivers. If we compare Uber with Lyft in these terms, Uber has more rides per driver and more riders per driver. This proves that Uber has a strong network that can effectively generate driver earnings.

If we analyse Uber's competitive position geographically, we can see that Uber is a significant player in most of the markets where it operates. In the ridesharing market, the company controls more than 65% of the market in North America, Latin America, Europe, Australia, and New Zealand. In India, Middle Eats, and North Africa, Uber controls more than 50% of the market[3].

One of the main issues for Uber is to become profitable, which it has not been until now. Uber's operating margin has been improving over the years but remains negative as of 2018, with a value of -23.5%. However, this could be worse if it was not a characteristic of the segment. If these companies will ever attain profitability, the key is to be dominant and have a grand scale. With concern to net profit margins in the ridesharing business unit, Uber converts revenue into profit in a more efficient way than the competitors. For this segment, Uber presents a net profit margin of 7.2% in 2018, Lyft shows only -42.3% for the same year[4].

Regarding the food delivery segment, some competitors have a better performance concerning net profit margin, like GrubHub, with 14.5%[5], for 2017 and Amazon with 0.4%[6]. Other competitors perform worse than Uber,

[2] Millenial Money Man. 2019. "Uber vs. Lyft: Which Is Better to Drive For?" Accessed January 1, 2020. https://millennialmoneyman.com/uber-vs-lyft/.

[3] Uber Technologies, Inc. 2019. "Uber - FORM S-1 REGISTRATION STATEMENT." Accessed January 1, 2020c. https://www.sec.gov/Archives/edgar/data/1543151/000119312519103850/d647752ds1.htm.

[4] Lyft. 2019. "Lyft - FORM S-1 REGISTRATION STATEMENT." https://www.sec.gov/Archives/edgar/data/1759509/000119312519059849/d633517ds1.htm.

[5] Grubhub, Inc. n.d. "Grubhub, Inc. - Investors - Annual and Proxy Reports." Accessed January 1, 2020. https://investors.grubhub.com/investors/annual-and-proxy-reports/default.aspx.

[6] Amazon.com. 2018. "Amazon Annual Report."

which is the case of Delivery Hero, with -64.0% and Takeaway.com -27.7%, for the same year.

Shareholder Structure

The governance structure of Uber is one share-one vote. After the IPO, more than 50% of the shares belong to executives, directors, and early-investors, and 17% belong to Travis Kalanick, Garrett Camp, and Ryan Graves together. Softbank had 16.3% of shares and Alphabet 22.3%.

Travis Kalanick is the co-founder and former CEO of Uber, who was ousted by private investors in 2017 due to toxic workplace culture. Since then, the relationship between Kalanick and CEO Dara Khosrowshahi has not been easy. Khosrowshahi wants to give Uber a new path, and Kalanick and its shady past keep staying in the picture[7]. However, as the lockup period ended, Kalanick started to sell his shares, which gave a bad signal to the market. Despite this, Uber announced that the former CEO is leaving the board of directors, putting an end in these ten years' relation with the company[8]. This may be the reason why Kalanick started to sell shares since the beginning and can be seen as favourable for the company since now the CEO has room to pursue a new path running the company.

Figure 5 - Uber's main competitors and its segments

	Uber	Lyft	Ola Cabs	Didi
Ridesharing	✓	✓	✓	✓
Autonomous Vehicles	✓	✓		✓
Freight Services	✓			
E-bikes and scooters	✓	✓	✓	✓
Payment Services	✓		✓	
Food Delivery	✓			✓

Competitive Landscape

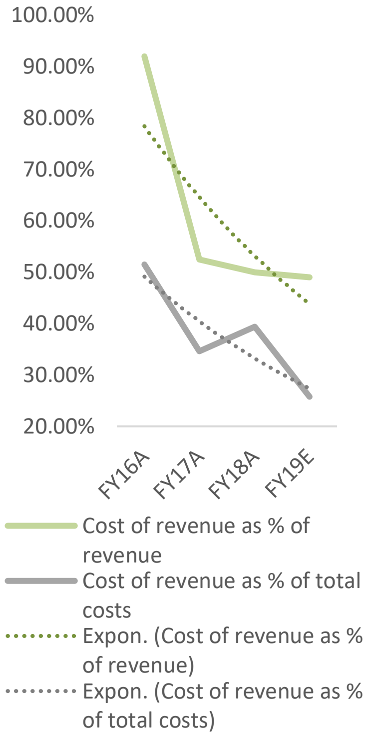
There is not any company providing all the services provided by Uber, in the same geographies.

In the ridesharing market, Uber still faces intense competition. In the US and Canada, Lyft is Uber's main rival, offering ridesharing services, autonomous vehicles, e-bikes, and scooters. Also, in this segment, we can point out Ola Cabs, Didi, and Bolt. Ola Cabs operates in India, Australia, New Zealand, and the UK. Didi is focused on the ridesharing market in Asia and Australia, and it's one of the main responsible for Uber leaving the country. Bolt is operating in Europe, Africa, Asia, Mexico, and Australia.

[7] New York Times. n.d. "With Uber's I.P.O., Dara Khosrowshahi Is Taking Travis Kalanick's Company Public - The New York Times." Accessed January 2, 2020. https://www.nytimes.com/2019/05/03/technology/uber-ipo-ceo-dara-khosrowshahi-travis-kalanick.html

[8] Uber Technologies, Inc. 2019. "Uber Technologies, Inc. - Travis Kalanick to Depart Uber Board of Directors." Accessed January 1, 2020d. https://investor.uber.com/news-events/news/press-release-details/2019/Travis-Kalanick-to-Depart-Uber-Board-of-Directors/default.aspx.

Figure 6 - Cost of revenue as percentage of revenue and total costs



In the food delivery segment, GrubHub, Delivery Hero, Just Eat, Takeaway.com, Swiggy, Zomato, Deliveroo, DoorDash, and Amazon are the main competitors, offering food delivery services in different geographies.

In what concerns to autonomous vehicles, Uber faces severe competition and competitors are achieving knowledge and expertise quickly in this segment. The main competitors are Waymo, Aptiv, Tesla, or General Motors[9]. Waymo is a company owned by Google, founded in 2009, and it is considered as being the most avant-garde in this sector since the company installed a self-driving mini-van to Chrysler in 2017 and placed Waymo fully autonomous driving cars in Phoenix in 2018[10]. Uber has been improving its technology and safety concerns partnering with car producer brands, like Toyota and Volvo Cars[11].

The conclusion about the competitive landscape around Uber is that the company has the scale advantage of being all over the world. Also, this market has meagre switching costs and low barriers to entry, so the competitors can be very local and may change several times in just a year.

Value Drivers

In terms of value drivers, different segments correspond to distinct drivers of value. However, some of the costs faced by Uber are related to several segments.

The most considerable portion of costs is the cost of revenue, which represents c. 26 % of total costs and 49% of revenue. However, cost of revenue as a percentage of revenue and total costs have been decreasing over the years, making the company more efficient. This portion of costs includes mainly insurance expenses, credit card processing fees, amounts related to fare chargebacks, excess driver incentives, and costs incurred with carriers for Uber Freight transportation and other costs.

[9] Financial Times. 2019. "Uber's Conflicting Self-Driving Fleet Vision | FT Alphaville." Accessed January 1, 2020b. https://ftalphaville.ft.com/2019/04/12/1555079659000/Uber-s-conflicting-self-driving-fleet-vision/.

[10] Forbes. n.d. "Key Milestones Of Waymo - Google's Self-Driving Cars." Accessed January 1, 2020a. https://www.forbes.com/sites/bernardmarr/2018/09/21/key-milestones-of-waymo-googles-self-driving-cars/.

[11] Deloitte. 2019a. "Autonomous Driving - Moonshot Project with Quantum Leap from Hardware to Software & AI Focus."

Figure 8 - Operations and support costs as percentage of revenue and total costs

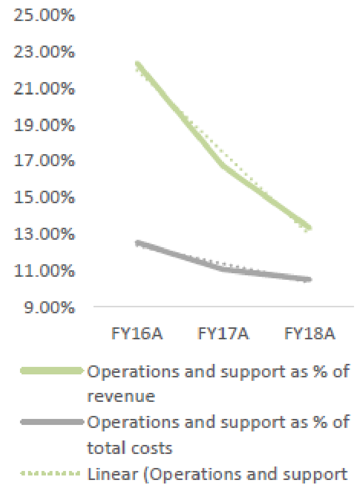
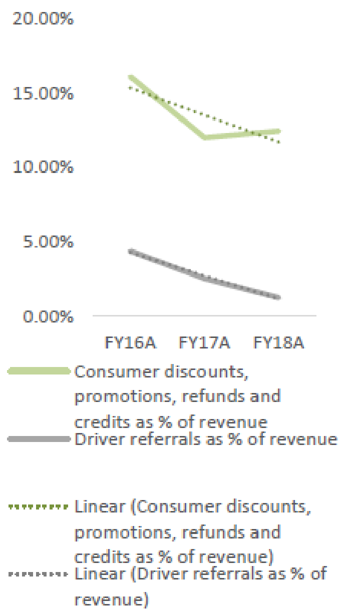


Figure 9 - Consumer discounts driver referrals as a percentage of revenue



Insurance costs are a crucial part of the expenses incurred by Uber, and the company shows a competitive advantage in these costs when compared to its peers. The scale of Uber allows the company to negotiate better terms for its insurance contracts[12]. Credit card processing fees accounted for 18% of the cost of revenue in 2017 and 21% in 2016, with its relevance in the cost of revenue growing by 63% from 2016 to 2017. Excess driver incentives are driver incentives when the fee that has to be paid to the driver exceeds the price paid by the end-consumer. These costs have been accounting for around 15% of the cost of revenue in 2018.

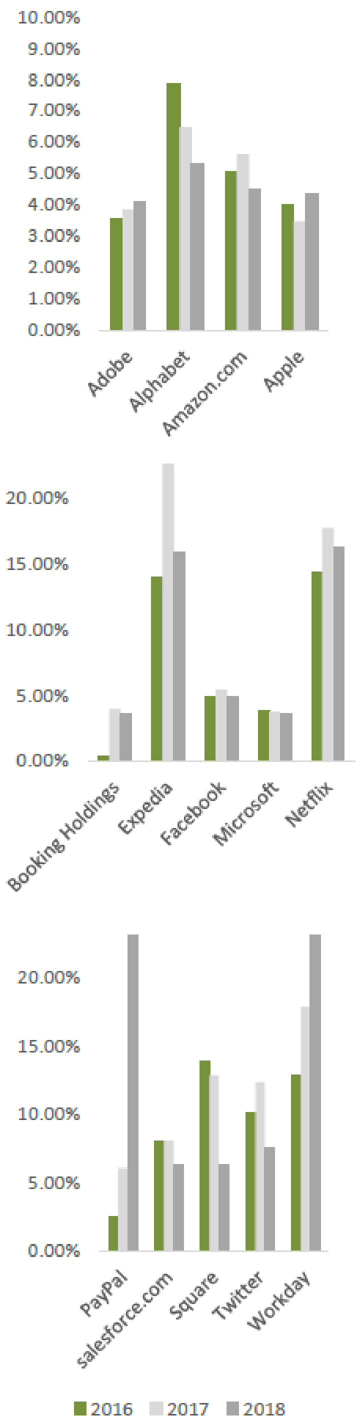
Uber also incurs in operations and support costs, which are mainly consumer support and driver background checks costs. These expenses typically increase less than revenue because there are economies of scale involved. Although this verifies in Uber, these costs may also be higher because the background checks requirements are more restrict year over year, and the company also wants to improve its customer and driver support.

Uber also incurs costs related to sales and marketing. These expenses include stock-based compensations, consumer discounts, promotions, refunds and credits, driver referrals, and advertising expenses. Discounts are used to attract customers since Uber has not pricing power and needs to decrease prices to attract consumers and achieve dominance in each market. In 2018, consumer discounts accounted for around 12% of revenues, and driver referrals 1% of revenues.
Driver referrals comprise payments done to existing drivers to refer new drivers. These costs are declining as a percentage of revenue, and as the revenues and dominance of Uber increase.

In what concerns to research and development costs, Uber incurs in specific expenses related to the Autonomous Technology Group (ATG) and other technological investments, stock-based compensations, and further research and development expenses. The ATG is a corporate funded by Toyota, Soft Bank, DENSO Company, and Uber to accelerate the development and commercialization of automated vehicles[3]. The ATG investment is influenced by competitive landscape, market development, and partnerships with other companies.

[12] DBS Group research. 2019. "Ride-Sharing, Profitable or Not?" DBS Asian Insights, no. May: 1–33.

Figure 10 - Comparable's operating cash



In terms of the balance sheet, Uber is a company with a light balance sheet because besides being a services provider company, it doesn't hold a relevant portion of fixed assets.

To determine the working capital, operating cash was based on comparables In terms of working capital, operating cash was based on a group of comparables, named by Uber[3], and formed by tech companies that play a role in e-commerce companies.

Ridesharing

The ridesharing revenue comes from bookings done by costumers that we can decompose in price per mile and miles traveled. From the bookings, there are costs to be deducted to obtain revenue. Consumers pay a certain price for each ride, which is determined based on the miles traveled. From this, Uber has to pay fees to the drivers, besides the costs mentioned before (consumer discounts, and excess driver incentives).

Uber Eats

In the case of Uber Eats, the company extracts value from the food basket value and delivery fees, which together compose the price paid by end-users. The restaurants charge a certain price for the food, from which Uber extracts a fixed percentage (around 25%) and Uber charges a delivery fee, that can be a fixed amount or a variable amount depending on the amount of the food basket and the distance of the delivery.

Uber Freight

Regarding Uber Freight, the company charges a price per shipment to the shippers and celebrates contracts with carries. Costs incurred with carriers accounted for 117% of Uber Freight revenue in 2018, making Uber Freight a heavy cost segment.

New Mobility

In the new mobility sector, the company extracts value from the price paid per minute by the users. However, Uber has to acquire the equipment in this segment.

Trends and Forecast

The revenue structure is expected to change over the following years because although the different business units are experiencing similar

Figure 11 - Vehicle ownership growth

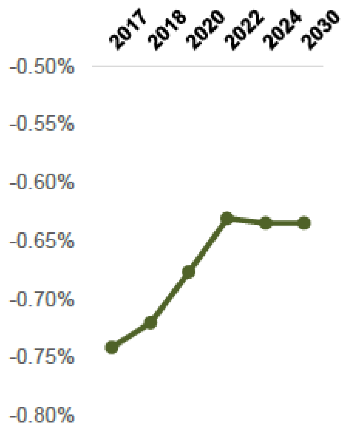
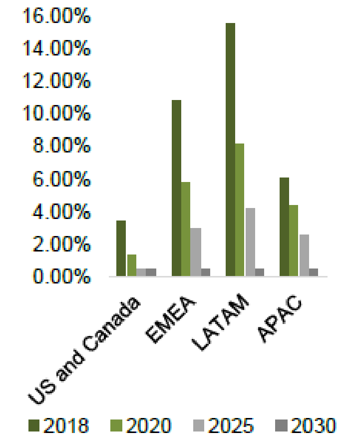


Figure 12 - Smartphone penetration growth



macroeconomic conditions, each segment represents a different industry, with different competitors and drivers of value. Each of the sectors where Uber operates is in an embryonic stage, which gives it high growth projections but with risky uncertainties associated.

Ridesharing

Ridesharing has been growing fast, but it has a margin to go further. Uber has only penetrated, on average, 1% of the markets where it operates. In the countries where the company operates, people traveled 4.7 trillion vehicle miles in trips under 30 miles, of which just 26 billion miles were traveled in an Uber[3].

The generations to come are more willing to pick up an Uber instead of using their car, and we will also have more and more people using e-commerce platforms as the smartphone penetration grows.

In this sense, one of the main trends affecting the ridesharing market is the decrease in vehicle ownership, which is a clear tendency among the younger generations. Vehicle ownership growth varies between -0.7% in 2017 and -0,6% in 2030[13]. This decrease is expected to influence ridesharing miles travelled inversely.

The other factor affecting ridesharing is the smartphone penetration rate, which is assumed to influence positively, but less than proportionally, the ridesharing miles traveled.

Uber identified six near-term priority countries that together represent an opportunity of 4,700 million miles per year. These are markets where Uber has already been, but it has to get out because of regulatory issues that are already being addressed with the respective governments. Expecting Uber to have these markets back in 2019, this translates in 47 more miles traveled in 2019 besides the normal company growth.

Also, to adjust the revenue's growth to the macroeconomic environment, it is essential to consider consumer spending in transportation growth, inflation rate, and fuel costs growth.

Consumer spending growth on transportation varies from geography to geography, and it is assumed to affect the ridesharing miles traveled directly.

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[13] Statista. 2019. "Passenger Cars - United States | Statista Market Forecast." Accessed January 1, 2020b. https://www.statista.com/outlook/1000000/109/passenger-cars/united-states.

Figure 13 – Ridesharing Price per mile and miles traveled by geographic region

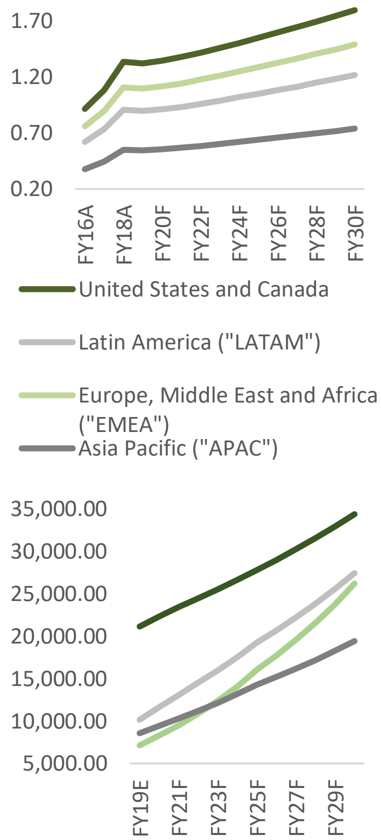
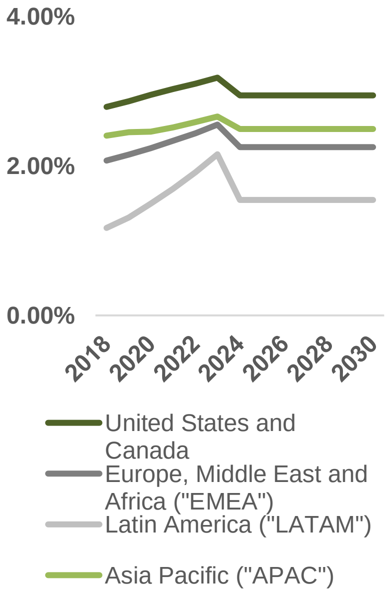


Figure 14 - Consumer spending growth in foodstuffs and beverages



The inflation rate in the US has been and is going to remain stable over the years, and it is expected to influence directly and positively the ridesharing price per mile, driver earnings and incentives per mile in the ridesharing segment.

Fuel costs growth is expected to decrease c.1% in 2020 and increase 1% for the rest of the period, except for 2021, when growth expected is 0%[14], influencing the price per mile positively but less than proportionally.

In what concerns discounts, the company assumes it will continue to use them as a way to attract riders until it achieves dominance. As dominance is achieved, Uber can decrease discounts gradually. As so, and having in mind that Uber is already leading some markets, discounts will represent 10% of the revenue, since they have been accounting for 14% over the past years.

Having this, the price per mile in 2020 and 2030 is 1.34 and 1.79 in the US and Canada, 0.91 and 1.22 in Latin America, 1.11 and 1.49 in EMEA, and is 0.55 and 0.74 in the APAC. Miles travelled in 2020 and 2030 are 22,297 and 34,380 for US and Canada, 11,613 and 27,437 for LATAM region, 8,293 and 26,204 for EMEA region and 9,445 and 19,421 for APAC region, respectively.

Because Uber charges fixed fees to end-consumers but pays dynamically to drivers, trips of a particular driver may represent a cost for the company because the price paid by the users does not offset the driver earnings that Uber has to pay. These are excess driver incentives, which are expected to grow the same way driver earnings grow.

In terms of revenue forecast, ridesharing will decrease its impact on total revenues to 40% for 2030.

Uber Eats

One of the main features driving the Uber Eats segment is the industry's growth. The food delivery market has been growing 15 times more than foodstuffs and beverages market since 2013, at an average rate of 77%[3]. However, this growth is expected to slow down over the future years. As so, the forecast rate assumed is five times higher than the growth rate for foodstuffs and beverages market.

Consumer spending growth in foodstuffs and beverages varies throughout geographies, and its average for the US if 2.94%, 1.55% for LATAM, 2.25% for EMEA, and 2.49% for APAC.

[14] Deloitte. 2019b. "Price Forecast - Oil, Gas & Chemicals."

Additionally, smartphone penetration also plays a role in this segment, directly affecting Uber Eats gross bookings.
In 2030, revenue for Uber Eats accounts for 12.53% of total revenue.

Other Revenue

Other revenue is mainly composed of Uber Freight, new mobility, and ATG, and other technology programs.
For the launching of ridesharing and eats, the company had years of around 500% revenue growth, followed by 100% on the following year, at the early years of each segment. Because of that, a new segment factor was added to the forecast of new segment revenues, following this pattern of growth.
Regarding the other revenue forecast (Uber freight, New mobility, and Autonomous segment), it is expected an increase in its weight on total revenues, from 26.2% in 2020 to 47.0% in 2030.
Uber Freight's revenues and costs were directly forecasted, assuming that this is a heavy-cost segment and having the past launch of other segments in mind.

Uber Freight

For Freight it is assumed that the 500% of revenue growth due to the new segment factor happened in 2019 and that revenue growth attributable to this factor is 100% in 2020, 75% in 2021, 30% in 2022, and 10% for the following years.
Also, the freight market is expected to grow by 4%[15], which was also considered for the Uber freight revenue forecast.
In what concerns to this industry's specific costs, in 2018, costs incurred with Uber Freight Transportation accounted for 117% of Uber Freight revenue. In the expansion years (until 2023), this percentage is expected to be the same, decreasing to 95% for the following years.

New Mobility

New Mobility is also a relatively new segment at Uber for which the same new segment factor was assumed. This can be supposed because Uber is

[15] Mordor Intelligence, Mordor. 2019. "Freight Forwarding Market | Growth, Trends, and Forecast (2019 - 2024)." Accessed January 1, 2020. https://www.mordorintelligence.com/industry-reports/freight-forwarding-market.

leading most of the markets where it operates[16]. Additionally, this industry is growing at 19%[17].

ATG

Finally, one of the newest and more complex businesses is the autonomous cars segment. This industry is expected to grow at 36%[18], which is assumed as the forecast rate for this segment at Uber.

General Costs

In addition to excess driver incentives, credit card processing fees, and insurance expenses are the main costs associated with the cost of revenue. In what concerns with credit card processing fees, during the financial crisis of 2009, the Federal Reserve and European Central Bank implemented an economic policy that reduced drastically interest rates to minimum historical values. After 2010, these interest rates started a smooth increase that never reached more than 3% until mid-2019. Since banking institutions were not creating profit from loans, meaning that interest rates were too low to generate money from giving it to costumers, banks were forced to change strategy. Consequently, banks are, nowadays, changing its focus to fees applicable to costumers and companies, which implies that costs associated with bank involvement are increasing to banks be able to be gainful.[19]. This factor suggests an increase in credit card processing fees for Uber. Nevertheless, Uber founded a new unit, Uber Money, whose objectives are

[16] Fortune. 2019. "Uber's Custom Electric Scooter to Roll Out by Year's End | Fortune." Accessed January 1, 2020. https://fortune.com/2019/03/14/uber-custom-electric-scooters/.

[17] Global News Wire. 2019. "The World Market for Bike & Scooter Rentals, 2019-2027: Projected to Witness a CAGR of 18.9%." Accessed January 1, 2020. https://www.globenewswire.com/news-release/2019/09/16/1915722/0/en/The-World-Market-for-Bike-Scooter-Rentals-2019-2027-Projected-to-Witness-a-CAGR-of-18-9.html.

[18] Market Watch. 2019. "Self-Driving Car Market Global Industry Trends, Share, Size and Forecast Report By 2023|With CAGR of 36.2% - MarketWatch." Accessed January 1, 2020. https://www.marketwatch.com/press-release/self-driving-car-market-global-industry-trends-share-size-and-forecast-report-by-2023with-cagr-of-362-2019-12-17.

[19] EURACTIV. n.d. "Banks Should Charge Customers Higher Fees, Says ECB – EURACTIV.Com." Accessed January 1, 2020. https://www.euractiv.com/section/banking-union/news/banks-should-charge-customers-higher-fees-says-ecb/.

to decrease fees paid to banks on payments' process to drivers and costumers, namely creating credit and debit cards to be employed exclusively by Uber users, but only with impact for whole company in several years due to limited usage on ridesharing division now [20] [21].

In terms of operations and support costs, the most relevant portion is consumer support and driver background checks. Law authorities are increasing scrutiny in concern with these service-providers and technological companies[22], which implies that Uber is forced to review its drivers' checks, not only because of law concerns but also because Uber is currently facing reputational processes with drivers that sex assaulted costumers. Other costs on operations and support also comprise fees with customer support. In recent years, companies around the world are increasing concern about consumer experience because it measures service quality and customer appreciation, which is one of the main concerns of Uber[23]. Besides that, Uber expects to invest in hiring new employees to support the growth of new products and markets[3]. As so, it is expected that these costs grow 1.5 times the revenue growth until 2022. From 2022 until 2030, the revenue growth is expected to drive this caption's growth.

The sales and marketing costs include driver and advertising expenses. These marketing expenses are increasing, because Uber needs to invest on it to increase revenues, meaning that forecast was done based on revenues

[20] Forbes. 2019. "Uber's Fintech Strategy: A Conversation With Peter Hazlehurst, Head Of Uber Money." Accessed January 1, 2020b. https://www.forbes.com/sites/ronshevlin/2019/11/04/a-peek-into-ubers-fintech-strategy-a-conversation-with-peter-hazlehurst-head-of-uber-money/.
[21] Uber Technologies, Inc. 2019. "Introducing Uber Money | Uber Newsroom." Accessed January 1, 2020a. https://www.uber.com/newsroom/introducing-uber-money/.
[22] Business Insider. 2019. "Uber Is Facing More Regulatory Woes - Business Insider - Business Insider." Accessed January 1, 2020. https://www.businessinsider.com/uber-faces-more-regulatory-woes-2019-9.
[23] Customer Contact Week Digital. 2018. "Uber on Creating a New Global Customer Experience Through Rebranding | CCW Digital | Customer Experience Tips, Research & News." Accessed January 1, 2020. https://www.customercontactweekdigital.com/customer-insights-analytics/articles/uber-rebranding-2018.

performance per business unit, and also, advertising spending worldwide, which is growing around 5% until 2022[24].

The costs associated with research and development are ATG and other technological programs, which depend on macroeconomic context and competitive landscape.
Having the competitive landscape and the latest news in mind, it is believed that this investment will increase less than the average growth of the past years but will keep growing until 2030. As so, the expected growth for this investment is 100% for 2020, 75% for 2021, 30% for 2022, 10% from 2023 to 2024, 5% from 2025 to 2027 and 1% from 2028 to 2030.

Operating Cash and Capital Expenditure

Since Uber has a light balance sheet, the Company also presents a low degree of Working Capital (WC). The operational cash included in WC is assumed as the same 6% of revenues for the 10-year forecast period.
The capital expenditure forecast was done based on property and equipment and intangible assets. Property and equipment, for 10-year forecast period, was assumed as 2019's percentage of revenues, which is 10%, meaning that company will invest less in the future, due to evolution of business and no need of investment in property and equipment, only used for support centers, administrative tasks, and management purpose.
For future performance, Uber's net profit is expected to improve. In terms of gross margin, this indicator will achieve a value of 32% in 2030.
Regarding the cost of revenue, its percentage of revenues will decrease to 36.6% in 2030.

Valuation

Uber's valuation was performed using two different methods of valuation. Firstly, the Discounted Cash Flow method (DCF), implying that the company is valued separately on each unit, namely operational, non-operational, and financial, and then, each valuation is added. Secondly, the multiple valuation is following valuation done to comparables based on ratios approach, such as EV/Sales, EV/EBITDA, or EV/EBIT.

[24] Statista. n.d. "• Growth of Advertising Worldwide 2000-2021 | Statista." Accessed January 1, 2020a. https://www.statista.com/statistics/272443/growth-of-advertising-spending-worldwide/.

Discounted Cash Flow

Considering the scenario of an undeveloped company, growth rate results from the evaluation of return on new invested capital and reinvestment rate. In this sense, the growth rate for the company is 4.9%, achieved using the reinvestment rate of a group of comparable companies[25]. The reinvestment rate was inferred based on a group of comparable companies weighted average reinvestment rate[25] that are companies operating in each business segment of Uber, namely Amazon, GrubHub, XPO Logistics, and other six companies. In this sense, the growth rate for the company is 4.9%, achieved using the reinvestment rate of a group of comparable companies[25], operating in each business segment of Uber (namely Amazon, GrubHub, XPO Logistics and other six companies).

The company valuation is based on unlevered free cash flow discounted at the respective Weighted Average Cost of Capital (WACC), with a value of 8.3%. To achieve unlevered beta was used regression analysis with Uber's (r_e), 10-year US government bonds (assumed as risk-free rate – r_f) and S&P500 (assumed as the risk of the market – r_m) weekly returns. After achieving an unlevered beta of 0.95, its value is levered to 1.77 with a debt-to-equity ratio of 1.10[25]. In order to compare beta levered, the same group of comparables had a value of 1.31 based on each segment where the company operates, weighted with gross bookings per business unit for Uber. So, the cost of equity (re) is calculated using Capital Asset Pricing Model – CAPM – with a market risk premium of 5.0% and a risk-free rate of 1.7%26 (Federal Reserve, 2019), reaching a value of 10.6%.

In terms of capital structure, the Company is composed of 48.5% of equity and 51.5% of debt in 2019. For the 10-year forecast period, debt-to-equity was assumed as similar to a group of comparable companies, being 25.5% of equity and 74.5% of debt to achieve a capital structure that allows the company to invest in several segments for future periods.

The enterprise value for December 2020 is $23.4bn inserting a cost of debt of 1.8%, calculated concerning the rating of Uber, probability of default and loss given default on this company. To obtain the equity value, net debt, and

[25] Thomson Reuters. n.d. "Home | Thomson Reuters." Accessed January 1, 2020. https://www.thomsonreuters.com/en.html.
[26] U.S Federal Reserve. 2019. "Federal Reserve Board - Data." Accessed January 1, 2020. https://www.federalreserve.gov/data.htm.

minority interest items ($-41.3bn) are subtracted from the enterprise value, resulting in an equity value of $64.7bn.

The target price achieved is $38.47/share, for 1,683 million shares outstanding.

Multiples

Multiple valuation for Uber was done based on 31 December 2019 expected. Different business units are associated with different comparable companies, but its impact on the total valuation of the Company is challenging to estimate for the future, meaning that multiple valuation for each segment will be added to others to achieve Uber's valuation.

Regarding ridesharing, comparable companies across the globe are Lyft, Grab, Yandex Taxi, Ola Cabs, and Bolt. From this group of comparable companies, only Lyft is available to multiple valuation, since the remaining companies are privately held. In what concerns the food delivery segment, excluding the private companies, comparable companies considered are GrubHub, Deliveroo, Just Eat, Takeaway.com, and Amazon.

In terms of the Other segment, it aggregates freight, new mobility, and autonomous business unit and comparable companies considered are only from freight segment, due to new mobility companies be private and autonomous segment have a rigorous assessment of comparables. So, comparable companies used are C.H.Robinson, XPO Logistics, Echo Global Logistics, and Hub Group.

Since Uber's EBITDA and EBIT are both negative, the multiple that is more feasible to use is EV/Sales. For the ridesharing business unit, EV/Sales is 2.90x, corresponding to a valuation of this segment of $32.6bn. Though, for the food delivery segment, the range of the multiple is between 3.30x and 12.70x, implying a minimum EV of $10.2bn and a maximum EV of $39.3bn, being on average $21.5bn. For the Other segment, the EV/Sales ranges between 0.3x and 2.9x, which implies a minimum EV of $1.5bn and a maximum EV of $14.8bn. On average, for this segment, the EV implied is $5.3bn.

Finally, taking as base the EV/Sales average for each business segment, EV is $60.1bn, implying a price per share of $59.91 for Dec-2020.

Sensitivity and Scenario Analysis

To conclude, taking as base the EV/Sales average for each business segment, EV for Uber is $59.5bn, implying a price per share of $59.91 for Dec-2020.

The sensitivity analysis is done changing WACC from a minimum of 6.3% and a maximum of 10.3% and growth rate from a minimum of 1.8% and a maximum of 5.8%, concluding that increase in growth and decrease in cost of capital will make price per share to increase to $379.90, meaning that Uber growing more and accounting for less risk will make share value to increase, and on the opposite side, lowest value per share is $3.83.

Besides that, ATG and New Mobility segments are tested in three different scenarios. For ATG, keeping the amounts invested equally for the three scenarios, in the worst scenario, it is assumed that this segment will grow at a slower pace than the market, and in the best scenario, it is assumed that revenue growth will outperform the industry's growth by 20%. For the worst and best scenarios, the price per share accomplished is $7.71 and $120.15, respectively.

This shows that the company highly depends on the outcome of the ATG investment, and also, if it can implement these vehicles sooner and better than the competitors, it will affect its price positively.

For New Mobility, the worst scenario assumes the new segment factor as zero, and the best scenario assumes the growth attributable to the new factor is 100% for 2020 and 2021, 75% for 2022, 30% for 2023 and 10% for the following years, resulting in a price per share of $-28.76 and $109.35, for the worst and best scenarios, respectively.

This shows that if revenue growth on new mobility is just 18% in the following years, which is very unlikely to happen, it can be a disaster. However, this scenario assumes this is a situation to maintain over the years, which is unrealistic since Uber would react to this, preventing this disaster from happening in consecutive years.

Recommendation

With a $ 38.47 target price, we leave a moderate buy as a recommendation. We see for Uber a future of opportunities to diversify its sources of revenues, but we cannot forget the risks associated with ATG, the regulatory restrictions, and also a possible difficulty in raising more debt.

Reasons to be optimistic

- **Scale:** Uber has a larger scale than most of its competitors, which provides them more data to define and analyze consumer behavior accurately, and the ability to enjoy synergies in its cost structure, improving efficiency;
- **Dominance:** the company is a significant player in most of the markets where it operates, and it has been working and will continue to work on acquisitions of local competitors that operate as major players in markets that Uber has not the capacity to penetrate;
- **Profitability:** we expect Uber to become profitable in 2028, overtaking one of the most challenging features of this market and against what the market believes;
- **E-commerce revolution:** Uber's best friend is the fact that people are changing their way of contract most of the services. In this sense, the company acts in a favorable context.

Reasons to be careful

- **Return of the investment on ATG:** if the company continues to invest in ATG and the revenue grows slower than the industry itself, this will be very damaging to the company's value;
- **Regulatory and law restrictions**: Uber may face barriers to maintain its activities in some geographies, namely in the six countries identified as near-term priority countries;
- **Challenging raise of debt:** the investments that Uber is planning imply financing needs that can be blocked by debt-financing institutions due to the high financial risk of the Company.

NOVA SCHOOL OF BUSINESS & ECONOMICS

1. Reformulated Statement of Operations

Reformulated and Forecasted Statement of Operations	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F
Year Ended December 31, (in millions)															
Core															
Revenue															
Ridesharing	**3,535**	**6,888**	**9,182**	**10,127**	**11,258**	**12,857**	**15,029**	**17,465**	**20,271**	**23,505**	**26,785**	**30,482**	**34,649**	**39,344**	**44,635**
UberEats	**103**	**587**	**1,460**	**2,555**	**3,093**	**3,609**	**4,222**	**4,959**	**5,749**	**6,668**	**7,709**	**8,916**	**10,316**	**11,939**	**13,823**
Other	207	457	628	2,564	5,105	9,095	12,406	14,602	17,256	20,481	24,419	29,255	35,226	42,638	51,887
Total Revenue	3,845	7,932	11,270	15,246	19,456	25,561	31,657	37,026	43,277	50,653	58,913	68,654	80,191	93,922	110,344
Revenue growth		106%	42%	35%	28%	31%	24%	17%	17%	17%	16%	17%	17%	17%	17%
COGS															
Cost of revenue, exclusive of depreciation and amortization															
Costs incurred for Uber Freight Transportation	-	(71)	(359)	(477)	(4,592)	(8,196)	(10,942)	(10,057)	(11,414)	(12,955)	(14,704)	(16,689)	(18,942)	(21,500)	(24,402)
Excess payments to Partners	(507)	(530)	(837)	(1,111)	(1,173)	(1,233)	(1,292)	(1,353)	(1,417)	(1,486)	(1,546)	(1,610)	(1,677)	(1,747)	(1,820)
Other	(1,721)	(3,559)	(4,427)	(5,879)	(6,379)	(6,925)	(7,527)	(8,180)	(8,879)	(9,643)	(10,414)	(11,251)	(12,157)	(13,140)	(14,205)
Total Cost of Revenue, exclusive of depreciation and amortization	(2,228)	(4,160)	(5,623)	(7,467)	(12,143)	(16,355)	(19,762)	(19,589)	(21,711)	(24,084)	(26,665)	(29,550)	(32,776)	(36,386)	(40,427)
Operations and support															
Other	(860)	(1,324)	(1,501)	(2,950)	(4,172)	(6,136)	(8,331)	(9,744)	(11,389)	(13,331)	(15,504)	(18,068)	(21,104)	(24,718)	(29,040)
Sales and marketing															
Consumer discounts, promotions, refunds and credits	(618)	(949)	(1,400)	(1,540)	(1,694)	(1,863)	(2,050)	(2,255)	(2,480)	(2,728)	(3,001)	(3,301)	(3,631)	(3,994)	(4,394)
Driver referrals	(167)	(199)	(136)	(221)	(256)	(296)	(325)	(358)	(394)	(433)	(433)	(433)	(413)	(413)	(413)
Other	(796)	(1,367)	(1,606)	(1,344)	(1,313)	(1,276)	(1,233)	(1,193)	(1,154)	(1,118)	(1,086)	(1,056)	(1,027)	(999)	(972)
Total COGS	(4,669)	(7,999)	(10,266)	(13,523)	(19,579)	(25,926)	(31,701)	(33,139)	(37,128)	(41,693)	(46,690)	(52,409)	(58,952)	(66,511)	(75,247)
GROSS PROFIT	**(824)**	**(67)**	**1,004**	**1,724**	**(123)**	**(365)**	**(44)**	**3,887**	**6,149**	**8,960**	**12,223**	**16,245**	**21,239**	**27,411**	**35,098**
Gross Margin (%)	-21%	-1%	9%	11%	-0.6%	-1%	0%	10%	14%	18%	21%	24%	26%	29%	31.8%
Loss from Equity Method Investment, net of income taxes	-	-	(42)	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative															
Other	(932)	(2,190)	(1,999)	(4,155)	(3,891)	(3,834)	(4,749)	(3,703)	(4,328)	(5,065)	(2,946)	(3,433)	(1,604)	(1,878)	(2,207)
G&A as % of Revenues	-24%	-28%	-18%	-27%	-20%	-15%	-15%	-10%	-10%	-10%	-5%	-5%	-2%	-2%	-2%
Research and Development	(819)	(1,176)	(1,440)	(2,964)	(5,612)	(9,573)	(12,385)	(13,661)	(15,068)	(15,909)	(16,791)	(17,730)	(18,069)	(18,433)	(18,660)
ATG and Other Technology Programs	(230)	(384)	(457)	(2,595)	(5,189)	(9,081)	(11,806)	(12,986)	(14,285)	(14,999)	(15,749)	(16,537)	(16,702)	(16,869)	(16,869)
All other research and development expenses	(589)	(792)	(983)	(369)	(423)	(492)	(579)	(675)	(784)	(909)	(1,042)	(1,194)	(1,367)	(1,564)	(1,791)
R&D as % of Revenues	-21%	-15%	-13%	-19%	-29%	-37%	-39%	-37%	-35%	-31%	-29%	-26%	-23%	-20%	-17%
Stock based compensations	(128)	(137)	(172)	(586)	(617)	(738)	(880)	(1,027)	(1,195)	(1,391)	(1,600)	(1,842)	(2,122)	(2,445)	(2,822)
Operations and support	(21)	(30)	(15)	(29)	(34)	(39)	(45)	(53)	(62)	(72)	(83)	(96)	(110)	(127)	(147)
Sales and marketing	(13)	(9)	(9)	(15)	(17)	(20)	(23)	(27)	(31)	(36)	(41)	(47)	(54)	(62)	(71)
General and administrative	(49)	(73)	(83)	(173)	(143)	(188)	(233)	(273)	(319)	(373)	(434)	(506)	(591)	(692)	(813)
G&A stock based compensations as % of revenues	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Research and Development	(45)	(25)	(65)	(369)	(423)	(492)	(579)	(675)	(784)	(909)	(1,042)	(1,194)	(1,367)	(1,564)	(1,791)
Operating Income/Loss	**(2,703)**	**(3,570)**	**(2,649)**	**(5,981)**	**(10,243)**	**(14,511)**	**(18,057)**	**(14,504)**	**(14,442)**	**(13,404)**	**(9,114)**	**(6,760)**	**(555)**	**4,654**	**11,410**
Depreciation and amortization	(320)	(510)	(426)	(550)	(474)	(622)	(817)	(1,072)	(1,408)	(1,848)	(1,848)	(1,848)	(1,848)	(1,848)	(1,848)
EBIT	**(3,023)**	**(4,080)**	**(3,075)**	**(6,531)**	**(10,717)**	**(15,133)**	**(18,874)**	**(15,576)**	**(15,850)**	**(15,252)**	**(10,962)**	**(8,608)**	**(2,403)**	**2,806**	**9,562**
Operating Adjusted Taxes	481	894	3,132	1,413	2,318	3,274	4,083	3,370	3,429	3,300	2,371	1,862	520	(607)	(2,069)
NOPLAT	**(2,542)**	**(3,186)**	**57**	**(5,118)**	**(8,399)**	**(11,860)**	**(14,791)**	**(12,207)**	**(12,421)**	**(11,953)**	**(8,591)**	**(6,746)**	**(1,883)**	**2,199**	**7,493**
Non-core															
Other income (expense), net															
Foreign currency exchange gains (losses), net	(91)	42	(45)	(99)	(126)	(166)	(205)	(240)	(281)	(329)	(382)	(445)	(520)	(609)	(716)
Gain in divestitures	-	-	3,214	-	-	-	-	-	-	-	-	-	-	-	-
Unrealized gain on investments	-	-	1,996	1	-	-	-	-	-	-	-	-	-	-	-
Other	66	44	225	494	631	829	1,027	1,201	1,403	1,643	1,910	2,226	2,600	3,046	3,578
Non-operating Income	**(25)**	**86**	**5,390**	**397**	**505**	**663**	**821**	**961**	**1,123**	**1,314**	**1,528**	**1,781**	**2,080**	**2,437**	**2,863**
Non-operating Taxes	(568)	(556)	(3,652)	(86)	(109)	(143)	(178)	(208)	(243)	(284)	(331)	(385)	(450)	(527)	(619)
Non-operating Income before other income/expenses	**(593)**	**(470)**	**1,738**	**311**	**396**	**520**	**644**	**753**	**880**	**1,030**	**1,198**	**1,396**	**1,630**	**1,909**	**2,243**
Income from Discontinued Operations, net of income taxes	2,876	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of tax	2	(4)	(185)	(185)	(185)	(185)	(185)	(185)	(185)	(185)	(185)	(185)	(185)	(185)	(185)
Non-operating Result	**2,285**	**(474)**	**1,553**	**126**	**211**	**335**	**459**	**568**	**695**	**845**	**1,013**	**1,211**	**1,445**	**1,724**	**2,058**
Financial															
Other income (expense), net															
Interest expense	22	71	104	229	292	383	474	555	649	759	883	1,029	1,202	1,408	1,654
Change in fair value of embedded derivates	142	(173)	(501)	(1,101)	(408)	(408)	(408)	(408)	(408)	(408)	(408)	(408)	(408)	(408)	(408)
Interest expense	(334)	(479)	(648)	(694)	(2,312)	(3,245)	(4,740)	(7,159)	(10,715)	(15,881)	-	-	-	-	-
Financial Income	**(170)**	**(581)**	**(1,045)**	**(1,567)**	**(2,429)**	**(3,270)**	**(4,674)**	**(7,012)**	**(10,475)**	**(15,530)**	**475**	**621**	**794**	**1,000**	**1,246**
Financial Tax Shield	60	205	237	339	525	707	1,011	1,517	2,266	3,360	(103)	(134)	(172)	(216)	(269)
Less: net loss attributable to redeemable non-controlling interest, net of tax	-	-	10	-	-	-	-	-	-	-	-	-	-	-	-
Financial Result	**(111)**	**(376)**	**(798)**	**(1,228)**	**(1,903)**	**(2,563)**	**(3,662)**	**(5,495)**	**(8,209)**	**(12,170)**	**372**	**487**	**622**	**783**	**976**
Comprehensive income (loss) attributable to Uber Technologies, Inc./Net income	**(368)**	**(4,037)**	**812**	**(6,220)**	**(10,091)**	**(14,088)**	**(17,995)**	**(17,134)**	**(19,935)**	**(23,278)**	**(7,206)**	**(5,048)**	**184**	**4,707**	**10,528**

NOVA SCHOOL OF BUSINESS & ECONOMICS

2. Reformulated Balance Sheet

Reformulated and Forecasted Balance Sheet	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F
Year Ended December 31, (in millions)															
Core															
Assets	**3,009**	**2,863**	**5,484**	**6,688**	**7,085**	**9,590**	**12,430**	**15,416**	**18,872**	**21,983**	**25,340**	**29,230**	**33,754**	**39,033**	**45,218**
Cash and cash equivalents	220	454	670	906	1,157	1,519	1,882	2,201	2,573	3,011	3,502	4,081	4,767	5,583	6,560
Account Receivables	503	739	919	1,256	1,594	2,095	2,594	3,034	3,547	4,151	4,828	5,626	6,572	7,697	9,043
Prepaid expenses and other current assets	158	425	860	1,517	2,289	3,292	4,633	6,298	8,366	9,700	11,067	12,611	14,356	16,328	18,557
Property and equipment, net	2,077	1,192	1,641	1,517	1,935	2,543	3,149	3,683	4,305	5,039	5,860	6,829	7,977	9,343	10,976
PP&E as % of revenues	54.02%	15.03%	14.56%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%
Intangible assets, net	51	53	82	72	110	141	172	199	82	82	82	82	82	82	82
Equity method investments	-	-	1,312	1,421	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**(2,007)**	**(3,612)**	**(4,127)**	**(4,355)**	**(4,703)**	**(6,489)**	**(8,346)**	**(9,209)**	**(10,525)**	**(12,009)**	**(13,406)**	**(15,234)**	**(17,152)**	**(19,579)**	**(22,433)**
Accounts payable	(280)	(213)	(150)	(120)	(230)	(305)	(373)	(390)	(437)	(490)	(549)	(616)	(693)	(782)	(885)
Accrued and other current liabilities	(1,010)	(2,306)	(2,825)	(3,930)	(3,962)	(5,463)	(7,073)	(8,077)	(9,333)	(10,792)	(12,334)	(14,208)	(16,345)	(18,931)	(22,005)
Other long-term liabilities	(717)	(1,093)	(1,152)	(304)	(511)	(722)	(900)	(743)	(756)	(727)	(523)	(410)	(115)	134	456
Core Invested Capital	**1,002**	**(749)**	**1,357**	**2,333**	**2,382**	**3,101**	**4,084**	**6,207**	**8,347**	**9,974**	**11,934**	**13,996**	**16,602**	**19,454**	**22,784**
Non-core															
Assets	**5,199**	**7,189**	**8,595**	**8,279**	**8,294**	**8,313**	**8,336**	**8,364**	**8,340**	**8,383**	**8,383**	**8,383**	**8,383**	**8,383**	**8,383**
Assets held for sale	57	1,138	406	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets, net	0	1	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill	39	39	153	172	172	172	172	172	172	172	172	172	172	172	172
Investments	5,102	5,969	7,985	8,043	8,043	8,043	8,043	8,043	7985	7985	7985	7985	7985	7985	7985
Other assets	-	42	51	64	79	97	120	148	183	226	226	226	226	226	226
Liabilities	**(1,566)**	**(2,264)**	**(3,108)**	**(4,407)**	**(3,508)**	**(3,902)**	**(4,371)**	**(4,932)**	**(5,607)**	**(6,443)**	**(6,828)**	**(7,246)**	**(7,699)**	**(8,190)**	**(8,722)**
Accrued and other current liabilities	(78)	(235)	(160)	(1,459)	(310)	(431)	(599)	(834)	(1,160)	(1,614)	(1,614)	(1,614)	(1,614)	(1,614)	(1,614)
Short-term insurance reserves	(87)	(469)	(941)	(941)	(1,021)	(1,109)	(1,205)	(1,309)	(1,421)	(1,544)	(1,667)	(1,801)	(1,946)	(2,103)	(2,274)
Long-term insurance reserves	(1,315)	(1,527)	(1,996)	(1,996)	(2,166)	(2,351)	(2,556)	(2,777)	(3,015)	(3,274)	(3,536)	(3,820)	(4,128)	(4,461)	(4,823)
Liabilities held for sale	(86)	(33)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Non-Core Invested Capital	**3,633**	**4,925**	**5,487**	**3,872**	**4,787**	**4,411**	**3,965**	**3,432**	**2,733**	**1,940**	**1,555**	**1,137**	**684**	**193**	**(339)**
Financial															
Assets	**7,506**	**5,374**	**9,909**	**20,484**	**27,416**	**37,486**	**52,110**	**73,350**	**104,196**	**148,996**	**148,996**	**148,996**	**148,996**	**148,996**	**148,996**
Money market funds	679	1,221	1,505	2,162	2,162	2,162	2,162	2,162	2162	2162	2162	2162	2162	2162	2162
Excess cash	5,960	4,153	6,034	15,952	22,884	32,954	47,578	68,818	99,665	144,464	144,464	144,464	144,464	144,464	144,464
Investments	867	-	2,370	2,370	2,370	2,370	2,370	2,370	2370	2370	2370	2370	2370	2370	2370
Liabilities	**(5,626)**	**(5,897)**	**(9,961)**	**(14,227)**	**(19,147)**	**(26,530)**	**(38,567)**	**(58,142)**	**(87,005)**	**(129,009)**	**(126,708)**	**(124,192)**	**(121,859)**	**(119,364)**	**(116,888)**
Accrued and other current liabilities	(68)	(172)	(172)	(239)	(326)	(463)	(677)	(1,013)	(1,540)	(2,366)	(2,366)	(2,366)	(2,366)	(2,366)	(2,366)
Liabilities held for sale	(817)	(419)	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt, net of current portion	(3,087)	(3,048)	(6,869)	(13,218)	(18,436)	(25,875)	(37,794)	(57,081)	(85,441)	(126,631)	(124,330)	(121,814)	(119,481)	(116,986)	(114,510)
Other long-term liabilities	(1,654)	(2,258)	(2,920)	(770)	(385)	(193)	(96)	(48)	(24)	(12)	(12)	(12)	(12)	(12)	(12)
Financial Invested Capital	**1,880**	**(523)**	**(52)**	**6,257**	**8,269**	**10,956**	**13,543**	**15,208**	**17,192**	**19,987**	**22,288**	**24,804**	**27,137**	**29,632**	**32,108**
Total Operational, Non-operational and Financial Invested capital	**6,515**	**3,653**	**6,792**	**12,463**	**15,437**	**18,468**	**21,592**	**24,847**	**28,271**	**31,902**	**35,777**	**39,937**	**44,423**	**49,280**	**54,553**
Total stockholders' equity (deficit)	(4,596)	(8,557)	(7,385)	(7,385)	(6,374)	(5,501)	(4,747)	(4,097)	(3,536)	(3,052)	(2,634)	(2,273)	(1,962)	(1,693)	(1,461)
Growth on SE		86%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%
Redeemable convertible preferred stock	11,111	12,210	14,177	19,848	21,811	23,968	26,339	28,944	31,807	34,953	38,411	42,210	46,385	50,973	56,014
Growth on RCPS		10%	16%	40%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Total equity attributable to shareholders	**6,515**	**3,653**	**6,792**	**12,463**	**15,437**	**18,468**	**21,592**	**24,847**	**28,271**	**31,902**	**35,777**	**39,937**	**44,423**	**49,280**	**54,553**

NOVA SCHOOL OF BUSINESS & ECONOMICS

3. Reformulated and Forecasted Cash Flow Statement

Reformulated and Forecasted Cash Flow Statement	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F
Year Ended December 31, (in millions)															
CORE															
EBIT	(3,023)	(4,080)	(3,075)	(6,531)	(10,717)	(15,133)	(18,874)	(15,576)	(15,850)	(15,252)	(10,962)	(8,608)	(2,403)	2,806	9,562
Taxes	481	894	3,132	1,413	2,318	3,274	4,083	3,370	3,429	3,300	2,371	1,862	520	(607)	(2,069)
NOPLAT	(2,542)	(3,186)	57	(5,118)	(8,399)	(11,860)	(14,791)	(12,207)	(12,421)	(11,953)	(8,591)	(6,746)	(1,883)	2,199	7,493
Depreciation & Amortization	320	510	426	550	474	622	817	1,072	1,408	1,848	1,848	1,848	1,848	1,848	1,848
Operating Cash Flow	*(2,222)*	*(2,676)*	*483*	*(4,568)*	*(7,925)*	*(11,237)*	*(13,974)*	*(11,134)*	*(11,013)*	*(10,105)*	*(6,743)*	*(4,898)*	*(35)*	*4,047*	*9,341*
Invested capital - Fixed Assets	2,128	1,245	1,723	1,588	2,046	2,684	3,321	3,882	4,387	5,121	5,942	6,911	8,059	9,425	11,058
CAPEX		883	(478)	135	(458)	(638)	(637)	(561)	(505)	(734)	(822)	(969)	(1,148)	(1,366)	(1,634)
Net CAPEX		373	(904)	(415)	(932)	(1,260)	(1,454)	(1,634)	(1,913)	(2,582)	(2,670)	(2,817)	(2,996)	(3,214)	(3,482)
Invested Capital - NWC and Others	(1,126)	(1,994)	(366)	745	336	417	763	2,325	3,960	4,854	5,992	7,085	8,543	10,030	11,726
Investment Cash Flow		*1,241*	*(2,532)*	*(1,526)*	*(523)*	*(1,341)*	*(1,800)*	*(3,195)*	*(3,547)*	*(3,476)*	*(3,808)*	*(3,910)*	*(4,454)*	*(4,701)*	*(5,178)*
Unlevered Core FCF		(1,435)	(2,049)	(6,094)	(8,447)	(12,578)	(15,774)	(14,330)	(14,561)	(13,580)	(10,550)	(8,807)	(4,489)	(654)	4,164
NON-CORE															
Non-Core Result	*2,285*	*(474)*	*1,553*	*126*	*211*	*335*	*459*	*568*	*695*	*845*	*1,013*	*1,211*	*1,445*	*1,724*	*2,058*
Non Core Investments	3,633	4,925	5,487	3,872	4,787	4,411	3,965	3,432	2,733	1,940	1,555	1,137	684	193	(339)
Invested Capital		(1,292)	(562)	1,615	(914)	376	447	532	699	793	386	418	453	491	532
Investment Cash Flow		*(1,292)*	*(562)*	*1,615*	*(914)*	*376*	*447*	*532*	*699*	*793*	*386*	*418*	*453*	*491*	*532*
Unlevered Non-core FCF		(1,766)	991	1,740	(704)	710	905	1,100	1,394	1,637	1,398	1,629	1,898	2,215	2,591
FCFF		**(3,201)**	**(1,058)**	**(4,354)**	**(9,151)**	**(11,868)**	**(14,869)**	**(13,229)**	**(13,167)**	**(11,943)**	**(9,152)**	**(7,179)**	**(2,591)**	**1,562**	**6,754**
FINANCIAL															
Financial Result	(111)	(376)	(798)	(1,228)	(1,903)	(2,563)	(3,662)	(5,495)	(8,209)	(12,170)	372	487	622	783	976
Net Financial Assets	1,880	(523)	(52)	6,257	8,269	10,956	13,543	15,208	17,192	19,987	22,288	24,804	27,137	29,632	32,108
Investment in NFA		(2,403)	472	6,308	2,012	2,687	2,587	1,665	1,984	2,795	2,301	2,516	2,333	2,495	2,476
Net Transactions with Shareholders		1,175	2,327	11,891	13,066	17,118	21,119	20,389	23,359	26,909	11,081	9,208	4,302	150	(5,254)
Total equity attributable to shareholders	6,515	3,653	6,792	12,463	15,437	18,468	21,592	24,847	28,271	31,902	35,777	39,937	44,423	49,280	54,553
Total comprehensive income	(368)	(4,037)	812	(6,220)	(10,091)	(14,088)	(17,995)	(17,134)	(19,935)	(23,278)	(7,206)	(5,048)	184	4,707	10,528
Investment Cash Flow		*3,578*	*1,855*	*5,582*	*11,054*	*14,431*	*18,532*	*18,724*	*21,376*	*24,113*	*8,780*	*6,692*	*1,969*	*(2,345)*	*(7,730)*
Financial Cash Flow		3,202	1,057	4,355	9,151	11,868	14,869	13,229	13,167	11,943	9,152	7,179	2,591	(1,562)	(6,754)

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Uber and its path to be a super app

Marta Cristina Silva Gomes Roque 34083

A Project carried out on the Master in Finance Program, under the supervision of:

Francisco Martins

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Abstract

This report aims to analyze the sifting strategy of Uber, in order to become the "operating system of everyday life".
The eastern world existing super-apps are analysed, comparing them to Uber. Uber's competition in the west, Facebook, is also taken in count.
Uber is is a good position to ever become a super-app and has already begginig, with the diversification of its services to the financial area.

Keywords
Uber, Super-app, Facebook, Growth.

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Introduction

Uber's growth strategy used to be to globally replicate what it has done in the US mobility market (Forbes 2019). In 2019, the expansion strategy of Uber has shifted. The company assumed it wants to be an "operating system for everyday life", transforming the Uber ridesharing app into a utilities super-app (Uber Technologies, Inc. 2019). This would make Uber the first supper-app of the western world. In the east, there are several examples of super apps, such as GoJek, Grab, LINE, Alipay, Meituan, and WeChat, that were in the past mentees of Uber and have become the super-app mentors for Uber. The purpose of this research is to understand if Uber has the needed features to pursue and be successful in applying this strategy, and also what may be the hindrances the company may find along the way.

The context

Nowadays, Uber offers services in mainly four segments: ride-sharing, food delivery, freight, and bikes and scooters renting. However, the company is already working on the diversification it wants to attain in the future.

In Chicago, the company is testing Uber Work, which connects workers with big and small businesses, allowing companies to meet their staffing needs and employees to find a job. In Manhattan, Uber is offering helicopter trips to the JFK airport for $ 200 by each trip, and in Nigeria, Uber offers boat rides. These are examples of diversification but still in the context of mobility or applying the same rationale for jobs.

In what concerns food delivery, Uber acquired a majority stake in the groceries delivery company Cornershop, which operates in Chile, Mexico, Peru and Canada, and it is going to expand its business into the US. In San Diego, the company is also testing drone food delivery.

Regarding financial services, Uber launched Uber Money (Uber Technologies, Inc. 2019), offering a virtual wallet, credit and debit cards. The company operates in countries where it allows payments in cash because financial services are underdeveloped. Particularly in those countries, Uber has launched Uber Wallet, a virtual wallet from which people can pay for Ubers, reducing cash payments. Now they are launching the virtual wallet in the US, which is only available for drivers but will soon launch in Uber's main app. Credit and debit cards are also available just for drivers.

Rides, food delivery (grocery and meals), e-scooters and bikes, a job platform on tests, and an embryonic financial service is what Uber has for now, which is far from the east super apps.

The super-apps operating in the east are mostly followers of Uber's strategy in mobility with the dissimilarity that they have diversified their products, becoming a role model for Uber.

GoJek launched in Indonesia in 2010 as a motorcycle taxi call center, transformed into an app in 2015. Today, it operates in Singapore, Thailand, and Vietnam, as an app for massages, tickets, auto services, beauty services, bill payment, parcel delivery, home maintenance, video streaming, laundry, mobile data, repair services, pharmacy services, groceries, food delivery, payments, ride-hailing, and banking (GoJek 2019).

Grab launched in Malaysia in 2012, as GrabTaxi, a taxi-booking mobile app. Now, it offers transportation, food delivery, payment services, parcel delivery, tickets, a streaming platform, and hotel bookings, in Singapore, Cambodia, Indonesia, Malaysia, Myanmar, Philipines, Thailand, and Vietnam (Grab 2019).

WeChat launched in China in 2011 as an instant messaging app. Today, in China, it is possible to use the app to order a taxi, food delivery, as a virtual wallet, and to buy cinema tickets.

Uber vs Facebook

Uber can become something similar to any of these super apps, but operating in the west.

On the other hand, Uber is not the only company in this run. Facebook announced at the beginning of 2019 that it wants to build a super app, starting from an instant messaging app (Facebook 2019). When compared to Uber, Facebook has more users and the characteristic of being an app that users consult more often than Uber.

From the east super-apps, GoJek and Grab started from the rides segment (similar to Uber), and WeChat from the social network segment (similar to Facebook).

Facebook has 2.6 billion users, and the social networks have the engagement advantage. People spend much time on Facebook apps (Instagram, Whatsapp, Messenger, and Facebook) (Tech Jury 2019). Uber has 100m users, and it is an app that people spend less time using. Nevertheless, it is not predictable if people would like to have utilities offers on its instant messaging app or would prefer instead to have a separated app for this kind of services, remaining the social related apps apart.

Uber's main advantage when compared to Facebook is that Uber is already familiarised with the business operations such as rides, food delivery, or even payment services, which can be replicated for almost all of the super-apps segments, increasing synergies between the different offers. The average revenue per user of Uber is $ 31.60 in the second quarter of 2019, while Facebook has only generated $ 6.40, with 90% coming from advertising. This shows that Facebook operations are much more restricted to the network model than Uber.

Also, Uber has its offers concentrated (or at least associated) to a unique brand name: Uber. At Facebook, we have Instagram, Messenger, WhatsApp, and Facebook working as separate brands, targeting different types of people, each with their own entity.

Besides being one solid brand, Uber already changed its services to the main app and launched Uber Money for drivers in the US.

Despite the average time spent on Uber's app being less than time spent on Facebook apps, Uber is in a better position to achieve the super-app statement since they can enjoy costs synergies, already operate as a unique brand, and are currently developing services out of the mobility sector.

Beyond competition from Facebook, Uber has the problem of making the new offers attractive enough to captivate people. The context where Uber wants to launch new features is different from the one where the east super-apps have launched. In the eastern countries, the tech world is less developed, and these apps have filled a lack of services that did not exist in the west. Most of the offers commonly available in those super-apps already have their own app providing that specific service. As so, to be successful, Uber has to make people give up on apps like Google Maps, Paypal, Revolut, Netflix, HBO, or Apple Pay. The convenience of using just Uber has to be high enough. To overcome this, Uber can enter into partnerships with providers of these services or even use subscription offers, as it is already doing in the US with the services available nowadays. These subscription services allow people to pay a monthly fee to have advantages in the several Uber services, such as zero delivery fees or specific discounts.

Which may also work as an advantage for Uber is the recent acquisition of Careem, from which Uber can take lessons related to its diversified offers and apply it in different markets.

Conclusion

Having in mind the success of the past launches of Uber, the company is in a favorable position to ever be a super-app. The company has an adequate scale and the experience of launching innovative services around the world, comparing to Facebook. Also, in 2010, Uber was just a ride-sharing, and now it already offers food and grocery delivery, financial services, freight services, e-scooters and bike renting, traffic information, job finding, helicopter, and boat rides. The company has become the immediate answer when talking about mobility, with people saying “Let’s Uber there”, in 63 countries all over the world. Having accomplished this, being a super app might be the challenge designed for Uber.

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